

Financial Statements of

**MARCAN
PHARMACEUTICALS INC**

Year ended March 31, 2019



KPMG Enterprise™
750 Palladium Drive, Suite 101
Kanata ON K2V 1C7
Canada
Tel 613-212-5764
Fax 613-591-7607

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Marcan Pharmaceuticals Inc

Opinion

We have audited the financial statements of Marcan Pharmaceuticals Inc (the Entity), which comprise:

- the balance sheet as at March 31, 2019
- the statement of operations for the year then ended
- the statement of deficit for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter - Comparative Information

The comparative information as at and for the year ended March 31, 2018 is unaudited. Accordingly, we do not express an opinion on it.



Responsibilities of Management and Those Charged With Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with Governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.



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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kanata, Canada

June 21, 2019

MARCAN PHARMACEUTICALS INC

Balance Sheet

March 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 478,848 | \$ 477,633 |
| Trade receivables (note 2) | 11,617,457 | 10,884,654 |
| Inventories (notes 3 and 10(a)) | 15,584,943 | 7,869,467 |
| Prepaid expenses and deposits | 4,517,529 | 3,361,047 |
| Future income taxes (note 4) | 6,208,747 | 4,239,374 |
| | <u>38,407,524</u> | <u>26,832,175</u> |
| Property and equipment (note 5) | 265,279 | 94,149 |
| Goodwill | 29,175,000 | 29,175,000 |
| Intangible assets (note 6) | 31,439,898 | 40,953,642 |
| | <u>\$ 99,287,701</u> | <u>\$ 97,054,966</u> |
| Liabilities and Shareholders' Deficiency | | |
| Current liabilities: | | |
| Line of credit (note 7) | \$ 1,383,593 | \$ 1,977,253 |
| Accounts payable and accrued liabilities (note 8) | 23,257,777 | 14,858,550 |
| Income taxes payable | 1,401,777 | - |
| Deferred revenue | 11,667 | 195,092 |
| Scheduled cash repayments for callable debt (note 9) | 7,350,000 | 5,250,000 |
| | <u>33,404,814</u> | <u>22,280,895</u> |
| Callable debt (note 9) | 24,991,703 | 32,166,364 |
| | <u>58,396,517</u> | <u>54,447,259</u> |
| Due to related parties (note 10(a)) | - | 129,664 |
| Notes payable to related parties (note 10(a)) | 18,520,706 | 17,228,564 |
| Preferred shares (note 11) | 41,202,084 | 37,456,440 |
| | <u>118,119,307</u> | <u>109,261,927</u> |
| Shareholders' deficiency: | | |
| Share capital (note 12) | 12,880,001 | 12,880,001 |
| Deficit | (31,711,607) | (25,086,962) |
| | <u>(18,831,606)</u> | <u>(12,206,961)</u> |
| Commitments (note 13) | | |
| Contingent liabilities (note 14) | | |
| | <u>\$ 99,287,701</u> | <u>\$ 97,054,966</u> |

See accompanying notes to financial statements.

On behalf of the Board:

 Director

Director

MARCAN PHARMACEUTICALS INC

Statement of Operations

Year ended March 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|---|----------------|----------------|
| Sales (note 10(b)) | \$ 57,453,792 | \$ 44,162,534 |
| Cost of sales (note 10(b)) | 40,786,589 | 31,726,376 |
| | 16,667,203 | 12,436,158 |
| Expenses: | | |
| Salaries and benefits | 3,469,691 | 2,940,910 |
| Research and development | 1,480,411 | 1,679,262 |
| Advertising and promotions | 356,544 | 278,006 |
| Professional fees | 326,658 | 316,294 |
| Testing | 322,672 | 134,312 |
| Licensing and fees | 194,007 | 207,486 |
| Travel | 191,500 | 180,494 |
| Bank charges and interest | 180,362 | 130,899 |
| Office | 145,339 | 112,031 |
| Rent | 110,601 | 57,229 |
| Bad debts | 46,122 | 240,286 |
| Insurance | 45,551 | 29,981 |
| Amortization of property and equipment | 67,190 | 62,692 |
| Data report fees | 30,231 | 21,031 |
| Other | 12,057 | 2,252 |
| Phone | 10,365 | 8,578 |
| | 6,989,301 | 6,401,743 |
| Earnings before the undernoted items and income taxes | 9,677,902 | 6,034,415 |
| Other income (expenses): | | |
| Other | 136,478 | 93,485 |
| Commissions | (40,000) | - |
| Amortization on deferred financing fees | (175,339) | (175,339) |
| Foreign exchange loss | (263,113) | (319,863) |
| Finance cost on notes payables | (1,292,142) | (1,201,993) |
| Interest on debt | (1,963,431) | (1,904,972) |
| Finance cost on preferred shares | (3,745,644) | (3,405,131) |
| Amortization of intangible assets | (9,513,744) | (9,513,744) |
| | (16,856,935) | (16,427,557) |
| Loss before income taxes | (7,179,033) | (10,393,142) |
| Income taxes: | | |
| Current | 1,414,985 | - |
| Future (recovery) | (1,969,373) | (2,059,374) |
| | (554,388) | (2,059,374) |
| Net loss | \$ (6,624,645) | \$ (8,333,768) |

See accompanying notes to financial statements.

MARCAN PHARMACEUTICALS INC

Statement of Deficit

Year ended March 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|-----------------------------|------------------------|------------------------|
| Deficit, beginning of year | \$ (25,086,962) | \$ (16,753,194) |
| Net loss | (6,624,645) | (8,333,768) |
| Deficit, end of year | \$ (31,711,607) | \$ (25,086,962) |

See accompanying notes to financial statements.

MARCAN PHARMACEUTICALS INC

Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|--|----------------|----------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net loss | \$ (6,624,645) | \$ (8,333,768) |
| Items not involving cash: | | |
| Amortization of deferred financing fees | 175,339 | 175,339 |
| Amortization of intangible assets | 9,513,744 | 9,513,744 |
| Amortization of property and equipment | 67,190 | 62,692 |
| Finance cost on notes payable | 1,292,142 | 1,201,993 |
| Finance cost on preferred shares | 3,745,644 | 3,405,131 |
| Future income taxes | (1,969,373) | (2,059,374) |
| Decrease (increase) in trade receivables | (732,803) | 1,215,345 |
| Increase in inventories | (7,715,476) | (2,684,199) |
| Increase in prepaid expenses and deposits | (1,156,482) | (3,037,657) |
| Increase in accounts payable and accrued liabilities | 8,399,227 | 2,922,364 |
| Increase in income taxes payable | 1,401,777 | - |
| Decrease in deferred revenue | (183,425) | (13,908) |
| | 6,212,859 | 2,367,702 |
| Financing activities: | | |
| Net advances (repayment) of line of credit | (593,660) | 1,977,253 |
| Repayment of callable debt | (5,250,000) | (3,780,000) |
| Decrease in due to related parties | (129,664) | (728,728) |
| | (5,973,324) | (2,531,475) |
| Investing activities: | | |
| Purchase of property and equipment | (238,320) | (12,796) |
| Increase (decrease) in cash | 1,215 | (176,569) |
| Cash, beginning of year | 477,633 | 654,202 |
| Cash, end of year | \$ 478,848 | \$ 477,633 |

See accompanying notes to financial statements.

MARCAN PHARMACEUTICALS INC

Notes to Financial Statements

Year ended March 31, 2019

Marcan Pharmaceuticals Inc (the "Company") is a private company incorporated on August 18, 2015 and subsequently amalgamated by articles of amalgamation on November 9, 2015, under the laws of Ontario. The company markets pharmaceutical products to wholesale distributors and retailers.

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian accounting standards for private enterprises. The Company's significant accounting policies are as follows:

(a) Inventories:

Inventories of raw materials and finished goods are measured at the lower of cost and net realizable value. Cost includes purchase, conversion and other costs incurred in bringing the inventories to their present location and condition. The costs are assigned using the weighted average cost formula.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. A provision for obsolescence is calculated based on historical experience. Management reviews the provision annually to assess whether it is adequate.

(b) Property and equipment:

Property and equipment are stated at cost, less accumulated amortization. Amortization is provided using the following methods and annual rates:

| Asset | Basis | Rate |
|------------------------|-------------------|---------|
| Furniture and fixtures | Declining balance | 20% |
| Computer hardware | Declining balance | 55% |
| Computer software | Declining balance | 45% |
| Leasehold improvements | Straight-line | 5 years |

MARCAN PHARMACEUTICALS INC

Notes to Financial Statements (continued)

Year ended March 31, 2019

1. Significant accounting policies (continued):

(c) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, at the date of the business acquisition, to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment whenever changes in circumstances indicate that the carrying value of the reporting unit to which goodwill is assigned may exceed the fair value of the reporting unit. When the carrying amount of a reporting unit, including goodwill, exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. An impairment loss is not subsequently reversed.

(d) Intangible assets:

Intangible assets resulting from a business acquisition are initially recorded at fair value. Separately acquired intangible assets are measured at cost.

For intangible assets with definite lives amortization is provided on a straight-line basis over their respective estimated useful lives.

| Asset | Rate |
|-------------------------|----------|
| Brand | 10 years |
| Client relationships | 5 years |
| Development fees | 10 years |
| Existing product rights | 10 years |
| Product pipeline | 10 years |

The Company capitalizes development fees when management believes they will generate future benefits and that all the criteria for capitalization are met.

Expenditures incurred on internally generated intangible assets are expenses as incurred.

MARCAN PHARMACEUTICALS INC

Notes to Financial Statements (continued)

Year ended March 31, 2019

1. Significant accounting policies (continued):

(e) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the asset's carrying amount to the estimated undercounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Company uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value..

(f) Income taxes:

The Company uses the future income taxes method of accounting for income taxes. Under the future income taxes method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment. Refundable taxes that will be recovered on the payment of qualifying dividends are recognized as a future income tax asset.

A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company's provision for the current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

(g) Revenue recognition:

Revenue is recognized when the customer takes ownership and assumes risk of loss, collection of the related receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable.

Sales made under agreements allowing for rights of return are recognized at the time of sale to the customer or distributor. Estimated returns and allowances are recorded as a reduction of revenue at the time of revenue recognition. Estimates are based on historical experience and other relevant factors.

MARCAN PHARMACEUTICALS INC

Notes to Financial Statements (continued)

Year ended March 31, 2019

1. Significant accounting policies (continued):

(h) Related party transactions:

Monetary and non-monetary related party transactions that have commercial substance are measured at the exchange amount when they are in the normal course of operations, except when the transaction is an exchange of a product or property held-for-sale in the normal course of operations. Where the transaction is not in the normal course of operations, it is measured at the exchange amount when there is a substantive change in the ownership of the item transferred and there is independent evidence of the exchange amount.

All other related party transactions are measured at the carrying amount.

(i) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate on the year end date. Non-monetary assets and liabilities are translated into Canadian dollars at the historical exchange rate prevailing when the assets were acquired or liabilities incurred. Sales and expenses, with the exception of amortization, are translated at the rate prevailing at the date of the transaction. Amortization is translated at the same rates used in the translation of property and equipment. Translation gains or losses are included in the determination of income for the year.

(j) Financial instruments:

Financial instruments are recorded at fair value on initial recognition and are subsequently recorded at cost or amortized cost, unless management has elected to carry the financial statements at fair value.

Financial instruments are adjusted by transaction costs incurred on the acquisition and financing costs. These costs are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Company determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Company expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future year, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

MARCAN PHARMACEUTICALS INC

Notes to Financial Statements (continued)

Year ended March 31, 2019

1. Significant accounting policies (continued):

(k) Use of estimates:

The preparation of the financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Areas of significant estimates include the allowance for doubtful trade receivables, the allowance for inventory obsolescence, the useful lives of intangible assets, accrual for professional allowances, allowances for sales returns, and future income tax asset. Actual results could differ from those estimates.

2. Trade receivables:

| | 2019 | 2018 |
|--|---------------|---------------|
| Trade receivables | \$ 11,781,782 | \$ 10,988,392 |
| Trade and other receivables - parent company | 260,267 | - |
| Loan receivable | - | 276,701 |
| Allowance for doubtful trade receivables | (424,592) | (380,439) |
| | \$ 11,617,457 | \$ 10,884,654 |

3. Inventories:

| | 2019 | 2018 |
|--------------------------------------|---------------|--------------|
| Finished goods | \$ 16,286,578 | \$ 8,293,959 |
| Raw materials | 13,848 | 119,388 |
| Allowance for inventory obsolescence | (715,483) | (543,880) |
| | \$ 15,584,943 | \$ 7,869,467 |

MARCAN PHARMACEUTICALS INC

Notes to Financial Statements (continued)

Year ended March 31, 2019

4. Future income taxes:

Significant components of the Company's net future income tax asset are as follows:

| | 2019 | 2018 |
|-------------------------|--------------|--------------|
| Property and equipment | \$ 27,135 | \$ 25,610 |
| Intangible assets | 6,123,000 | 4,162,484 |
| Deferred financing fees | (60,498) | (41,730) |
| Accounting reserves | 119,110 | 93,010 |
| | \$ 6,208,747 | \$ 4,239,374 |

5. Property and equipment:

| | 2019 | | 2018 | |
|------------------------|------------|--------------------------|----------------|----------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Furniture and fixtures | \$ 153,196 | \$ 28,301 | \$ 124,895 | \$ 20,898 |
| Computer hardware | 48,389 | 27,731 | 20,658 | 12,229 |
| Computer software | 184,911 | 150,648 | 34,263 | 61,022 |
| Leasehold improvements | 98,011 | 12,548 | 85,463 | - |
| | \$ 484,507 | \$ 219,228 | \$ 265,279 | \$ 94,149 |

Cost and accumulated amortization at March 31, 2018 amounted to \$246,187 and \$152,038, respectively.

MARCAN PHARMACEUTICALS INC

Notes to Financial Statements (continued)

Year ended March 31, 2019

6. Intangible assets:

| | | | 2019 | 2018 |
|------------------------|----------------------|--------------------------|----------------------|----------------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Customer relationships | \$ 31,200,000 | \$ 21,320,000 | \$ 9,880,000 | \$ 16,120,000 |
| Product rights | 25,086,139 | 8,563,341 | 16,522,798 | 19,031,412 |
| Brands | 4,008,000 | 1,369,400 | 2,638,600 | 3,039,400 |
| Product pipeline | 3,340,000 | 1,141,170 | 2,198,830 | 2,532,830 |
| Product development | 303,300 | 103,630 | 199,670 | 230,000 |
| | <u>\$ 63,937,439</u> | <u>\$ 32,497,541</u> | <u>\$ 31,439,898</u> | <u>\$ 40,953,642</u> |

Cost and accumulated amortization at March 31, 2018 amounted to \$63,937,439 and \$22,983,797, respectively.

7. Line of credit:

The Company has an authorized operating line of credit of \$4,000,000 that is due on demand and bears interest at the bank's prime rate plus 0.35%, calculated and payable annually. It is secured by an Irrevocable Standby Letter of Credit from Axis Bank Limited. At March 31, 2019, the Company had \$1,383,593 (2018 - \$1,977,253) drawn under this facility.

8. Accounts payable and accrued liabilities:

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Accounts payable and accrued liabilities | \$ 10,430,812 | \$ 10,602,851 |
| Accounts payable - companies under common control | 12,377,494 | 3,904,716 |
| Allowance for returned sales | 449,471 | 350,983 |
| | <u>\$ 23,257,777</u> | <u>\$ 14,858,550</u> |

MARCAN PHARMACEUTICALS INC

Notes to Financial Statements (continued)

Year ended March 31, 2019

9. Debt:

| | 2019 | 2018 |
|---|---------------|---------------|
| Loan, due November 2022, interest of CDOR plus 3.35% payable quarterly, quarterly principal repayments representing 2% to 7% of the initial loan balance of \$42,000,000 in accordance with the schedule. | \$ 32,970,000 | \$ 38,220,000 |
| Deferred financing fees | (628,297) | (803,636) |
| | 32,341,703 | 32,166,364 |
| Less cash repayments required within 12 months | 7,350,000 | 5,250,000 |
| | \$ 24,991,703 | \$ 26,916,364 |

The loan is secured by a corporate guarantee of the Parent Company, all current and non-current assets of the Company and a pledge of equity shares of the Company.

Under the terms of the debt agreement, the Company must comply with certain covenants regarding the maintenance of minimum financial ratios. At March 31, 2019, the Company is not in compliance with respect to the covenants.

Assuming payment of the loan is not demanded, regular principal payments required on the loan for the next four years are due as follows:

| | |
|------|---------------|
| 2020 | \$ 7,350,000 |
| 2021 | 8,820,000 |
| 2022 | 9,240,000 |
| 2023 | 7,560,000 |
| | \$ 32,970,000 |

MARCAN PHARMACEUTICALS INC

Notes to Financial Statements (continued)

Year ended March 31, 2019

10. Related party transactions:

(a) Due to related parties:

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Notes payable to related parties - long term | | |
| without interest, due November 2020 | \$ 9,260,353 | \$ 8,614,282 |
| without interest, due November 2020 | 9,260,353 | 8,614,282 |
| | <u>\$ 18,520,706</u> | <u>\$ 17,228,564</u> |

Each note is payable in the amount of \$10,400,000 on November 2020, for an aggregate payment of \$20,800,000. The notes payable are recorded at their present value using an effective interest rate of 7.5% and are being accreted to the principal amount. Annual accretion expense totaled \$1,292,142 (2018 - \$1,201,993).

| | 2019 | 2018 |
|---|------|------------|
| Due to related parties - long term | | |
| Companies owned by directors of the Company | \$ - | \$ 129,664 |

MARCAN PHARMACEUTICALS INC

Notes to Financial Statements (continued)

Year ended March 31, 2019

10. Related party transactions (continued):

(b) Related party transactions:

The following table summarizes the Company's related party transactions for the period:

| | 2019 | 2018 |
|--|---------------|------------|
| Purchases (returns) | | |
| Emcure Pharmaceuticals Inc. - parent company | \$ 13,498,580 | \$ 570,000 |
| Heritage Pharmaceuticals Inc. | (46,720) | 7,170,000 |
| Heritage Pharma Labs | 528,681 | - |
| Profit-share | | |
| Emcure Pharmaceuticals Inc. - parent company | 65,378 | 280,000 |
| Sale of goods and services | | |
| Heritage Pharma Labs | 52,096 | 50,000 |
| Reimbursement of expenses received | | |
| Emcure Pharmaceuticals Inc. - parent company | 28,011 | 150,000 |
| Heritage Pharmaceuticals Inc. | - | 10,000 |
| Reimbursement of expenses paid | | |
| Emcure Pharmaceuticals Inc. - parent company | 176,607 | 10,000 |
| Heritage Pharma Labs | 40,834 | - |
| Heritage Pharmaceuticals Inc | 1,915 | - |

Unless specified, the related parties are companies under common control.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of considerations established and agreed to by the related parties.

MARCAN PHARMACEUTICALS INC

Notes to Financial Statements (continued)

Year ended March 31, 2019

11. Preferred shares:

| | 2019 | 2018 |
|---|---------------|---------------|
| Authorized: | | |
| 48,000,000 Class "A" Preferred Shares, non-voting | | |
| Issued: | | |
| 48,000,000 Class "A" Preferred Shares | \$ 41,202,084 | \$ 37,456,440 |

The shares are redeemable at the option of the preferred shareholders and the Company after August 2021 with the option for the shareholders to waive both the shareholders' and the Company's rights of redemption for a period of one year. The shares have a redemption value based on EBITDA in the year of redemption to a maximum aggregate value of \$48,000,000.

The Class "A" preferred shares are recorded at their present value using an effective interest rate of 10% and are being accreted to their maximum future redemption value of \$48,000,000. Annual accretion expense totaled \$3,745,644 (2018 - \$3,405,131).

In the event of a liquidation, dissolution or winding up of the Company, the shares are redeemable based on EBITDA after November 2020.

12. Share capital:

| | 2019 | 2018 |
|--|---------------|---------------|
| Authorized: | | |
| Unlimited Common Shares, voting, participating | | |
| Issued: | | |
| 12,880,001 Common Shares | \$ 12,880,001 | \$ 12,880,001 |

MARCAN PHARMACEUTICALS INC

Notes to Financial Statements (continued)

Year ended March 31, 2019

13. Commitments:

The Company leases office space under an operating lease which expires August 2023. The minimum aggregate rent payable for the next five years is:

| | | |
|------|----|---------|
| 2020 | \$ | 176,499 |
| 2021 | | 176,499 |
| 2022 | | 180,414 |
| 2023 | | 187,125 |
| 2024 | | 79,134 |
| | \$ | 799,671 |

14. Contingent liabilities:

The Company, along with certain other generic drug companies, has entered into a tolling agreement, as requested by a defendant of a class action claim that was filed in 2015. The Company is not currently listed as a defendant in the class action claim. No provision has been made in the financial statements as the likelihood that the Company will incur a loss is undeterminable at this time.

MARCAN PHARMACEUTICALS INC

Notes to Financial Statements (continued)

Year ended March 31, 2019

15. Financial risks:

(a) Currency risk:

Approximately 14.9% (2018 - 24.5%) of the Company's sales are in foreign currency. Consequently, some assets, liabilities, revenue and expenses are exposed to foreign exchange fluctuations. The following amounts represent balances at year end denominated in USD which have been translated into Canadian dollars in the financial statements:

| | 2019 | 2018 |
|--|-------------|--------------|
| Cash | \$ 319,161 | \$ (140,276) |
| Trade and other receivables | 1,847,750 | 1,823,008 |
| Accounts payable and accrued liabilities | (2,508,800) | (6,256,195) |
| Advances to vendors | 2,724,331 | 2,249,856 |

(b) Credit risk:

The Company is exposed to credit risk in the event of non-performance by customers, but does not anticipate such non-performance. The Company monitors credit risk and credit reporting of customers as a regular basis. The maximum credit exposure is the fair value of accounts receivable.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements. The Company prepares budgets and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

(d) Interest rate risk:

The Company's debt has a variable interest rate based on CDOR plus a margin. As a result, the Company is exposed to interest rate risk due to fluctuations in the CDOR rate.